

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 ARA-10 /120 W

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R 141608Z JAN 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5622

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY TOKYO

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

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DEPARTMENT PLEASE PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: GERMAN PRESS REACTION TO JAMAICA IMF
INTERIM COMMITTEE MEETING.

1. SUMMARY. THE IMF INTERIM COMMITTEE MEETING IN JAMAICA GENERATED SUBSTANTIAL COMMENT FROM LEADING GERMAN NEWSPAPERS. THE COMMENTS, CONCENTRATED GENERALLY ON TWO POINTS: A) THE NEW FOREIGN EXCHANGE AND GOLD ARRANGEMENTS AND B) THE FACT THAT THE AGREEMENTS INVOLVED CONCESSIONS TO THE DEVELOPING NATIONS WHICH MAY BE DIVERTING THE IMF INTO AN INSTRUMENT OF DEVELOPMENT AID. THE NEW FOREIGN EXCHANGE ARRANGEMENTS WERE NOT INTERPRETED BY THE PRESS TO BE A REFORM BUT RATHER A
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LEGALIZATION OF ALREADY PREVAILING MONETARY CONDITIONS

AND PRACTICES. WITH REGARD TO GOLD THE PAPERS EXPRESSED SOME SCEPTICISM THAT THE NEW PROVISIONS WOULD REPLACE GOLD AS THE BASIS OF THE MONETARY SYSTEM. IT WAS RATHER ARGUED THAT, SHOULD THE GOLD PRICE FALL AS A RESULT OF IMF GOLD SALES, CENTRAL BANKS INCLUDING THE BUNDESBANK, WOULD VERY PROBABLY INTERVENE. THIS WOULD SIMPLY MEAN THE REINTRODUCTION OF SOME KIND OF DE FACTO OFFICIAL GOLD PRICE. THE FACT THAT THE JAMAICA AGREEMENT WAS NOT ACHIEVED WITHOUT SUBSTANTIAL CONCESSIONS TO DEVELOPING COUNTRIES WAS INTERPRETED AS THE BEGINNING OF A DEVELOPMENT WHICH MIGHT LEAD TO A CONVERSION OF THE IMF AS WORLD MONETARY AUTHORITY INTO A VEHICLE FACILITATING THE FINANCING OF BALANCE OF PAYMENTS DEFICITS OF DEVELOPING COUNTRIES, AND BRING THE IMF INTO THE BUSINESS OF PROVIDING DEVELOPMENT AID. END SUMMARY.

2. HIGHLIGHTS OF INDIVIDUAL PRESS ARTICLES ARE AS FOLLOWS:

THE HANDELSBLATT IN THE ARTICLE ENTITLED: "IMF ON THE WAY TO A DEVELOPMENT AID MACHINE" STATED THAT THE PRICE FOR THE KINGSTON ARRANGEMENT WERE SUBSTANTIAL FINANCIAL CONCESSIONS TO DEVELOPING COUNTRIES. IN THE PAPER'S VIEW THESE CONCESSIONS ARE PROBABLY THE BEGINNING OF A DEVELOPMENT DURING THE COURSE OF WHICH THE IMF WILL BECOME A "MONEY CREATING MACHINE FOR THE FINANCING OF BALANCE OF PAYMENTS DEFICITS OF DEVELOPING COUNTRIES." THE HANDELSBLATT NOTED ON THE OTHER HAND THAT THE REJECTION BY INDUSTRIAL COUNTRIES OF THE DEVELOPING COUNTRIES' DEMAND TO RELAX, OR EVEN REMOVE, CONDITIONS ON IMF BORROWINGS BY MEMBER NATIONS WAS AT LEAST A PARTIAL SUCCESS OF THE KINGSTON CONFERENCE. THE ARTICLE CONCLUDED THAT WHAT THE C-20 FINANCE MINISTERS AGREED UPON IS NO "GREAT NEW MONETARY ORDER" BUT THAT THE JAMAICA MEETING DEMONSTRATED IN DRAMATIC FORM THAT, AS FAR AS MONETARY POLICY IS CONCERNED, THE NORTH-SOUTH CONTROVERSY HAS JUST OPENED....THE MARCH OF THE HAVE-NOTS AND OF NEWLY RICH OIL COUNTRIES INTO THE POSITIONS OF LEADING IMF COUNTRIES WILL BE CONTINUED AT THE ANNUAL IMF MEETING IN THE PHILIPPINES NEXT FALL.

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3. DIE WELT STATED THAT AT KINGSTON GERMANY, THE USA AND FRANCE SUCCESSFULLY TURNED ASIDE DEMANDS OF DEVELOPING COUNTRIES TO CHANGE THE IMF FROM THE WORLD'S MONETARY AUTHORITY INTO AN INSTITUTION FOR FINANCIAL SUPPORT OF DEVELOPING COUNTRIES. WITH REGARD TO FOREIGN EXCHANGE ARRANGEMENTS, DIE WELT ARGUES THAT THE NEW ARTICLE IV OF THE IMF CHARTER CONTAINS "SEVERAL LOOPHOLES" SINCE IT

COMPLETELY REFRAINS FROM IMPOSING MONETARY AND FISCAL
POLICY MEASURES ON COUNTRIES REQUIRING IMF SUPPORT. AS
LONG AS THE DOLLAR REMAINS STABLE, THIS MAY NOT CREATE
PROBLEMS BUT IN CASE OF A NEW DOLLAR WEAKENING "IT MAY BE
DIFFICULT TO CONVINCE THE US GOVERNMENT -- OFTEN
CRITICIZED AS BEING PARTICULARLY UNDISCIPLINED - TO
CHANGE ITS MONETARY POLICY." WITH REGARD TO THE NEW GOLD
PRICE DECLINES, CENTRAL BANKS MAY SUPPORT THE GOLD PRICE.
THIS WOULD MEAN THE INTRODUCTION OF "SOME KIND OF NEW

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OFFICIAL GOLD PRICE" THROUGH THE BACK DOOR. IN A RATHER
CRITICAL CONCLUDING COMMENT DIE WELT QUESTIONED THE
"STRANGE ROLE PLAYED BY IMF DIRECTOR WITTEVEEN IN ACTING

AS AN ATTORNEY OF DEVELOPING COUNTRIES" AND STATED THAT
"PERHAPS HIS TERM IN OFFICE SHOULD NOT BE EXTENDED WHEN
IT EXPIRES THREE YEARS FROM NOW."

4. IN AN INTERVIEW WITH DIE WELT FINANCE MINISTER APEL
EXPRESSED SATISFACTION AT THE OUTCOME OF THE KINGSTON
MEETING. HE SAID IN RESPONSE TO A QUESTION ON THE
SPECIFIC ADVANTAGE THE JAMAICA AGREEMENT WOULD HAVE FOR
GERMANY THAT THE SUCCESS OF FRG EXPORT INDUSTRY IS
DEPENDENT ON STABLE EXCHANGE RATES AND STRESSED THAT THE
GERMAN EXPORT INDUSTRIES WOULD THEREFORE BE HELPED BY THE
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EXCHANGE RATE STABILIZATION ARRANGEMENT ACHIEVED IN
KINGSTON.

APEL SAID THAT DEVELOPMENTS IN EXCHANGE RATES WOULD
NOW BE GUIDED BY CLOSER COOPERATION OF THE IMF MEMBERS
WITHOUT FORCING A RETURN TO AN INFLEXIBLE SYSTEM. HE
POINTED OUT THAT NOT ONLY WILL JUST CENTRAL BANKS CONTROL
EXCHANGE RATE OPERATIONS BUT THE INFLUENCE OF
POLITICIANS WILL BE MUCH STRONGER THAN IN THE PAST.

MINISTER APEL SAID THAT RETURN TO FIXED BUT
ADJUSTABLE EXCHANGE RATES MUST BE PRECEDED BY A DURABLE
HARMONIZATION OF THE ECONOMIC AND FINANCIAL POLICIES OF
THE MAJOR INDUSTRIALIZED NATIONS.

ASKED ABOUT SALE OF IMF GOLD FOR THE ASSISTANCE OF
DEVELOPING NATIONS, APEL RESPONDED THAT THE SALE WILL
PRODUCE A SUM WHICH WILL BE USED TO SUBSIDIZE INTEREST
RATES OF CREDITS TO THE POOREST OF THE DEVELOPING NATIONS
AND WILL THEREFORE MOBILIZE A MUCH LARGER SUM THAN THAT
GENERATED BY THE SALE ITSELF. HE SAID THAT GERMANY
WOULD CONTINUE TO SUPPORT THIS GOLD SELLING POLICY --
IF IT IS PRESERVED. APEL SAID THAT INCREASED FINANCING
FACILITIES FOR DEVELOPING COUNTRIES WOULD ALSO INCREASE
DEMAND FOR GERMAN EXPORT GOODS.

5. THE JANUARY 12TH ISSUE OF THE NEWSMAGAZINE DER
SPIEGEL CONTAINED AN ARTICLE DEALING SPECIFICALLY WITH
GOLD. THE MAGAZINE EXPRESSED THE VIEW THAT THE OFFERING
OF IMF GOLD ON THE FREE MARKET WOULD PROBABLY NOT RESULT
IN LOWER GOLD PRICES -- FRANCE WOULD "BUY AS MUCH AS IT
CAN GET." STATE SECRETARY POEHL IS REPORTED TO REFER TO
THE AMOUNT OF IMF GOLD TO BE RETURNED TO GERMANY AS A
"NATIONAL TREASURE" WHICH WILL BE HELD AS A RESERVE
VESSEL. IN THIS CONNECTION APEL ALSO IS QUOTED AS
SAYING "ONLY THOSE WHO HAVE GOLD CAN GUARANTEE THEIR
EXCHANGE RATES." AND THAT "SLOWLY EVERYONE WILL COMPRE-

HEND THAT GOLD IS THE ONLY THING WHICH HAS PERMANENT
VALUE." DER SPIEGEL FURTHER STATES THAT APEL HAS BEEN
URGING BUNDESBANK PRESIDENT KLASSEN TO PUT IN BIDS IN THE
FORTHCOMING GOLD SALES. ACCORDING TO DER SPIEGEL, APEL
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CONSIDERS POSSIBLE WHAT HIS PREDECESSORS SCHMIDT AND
SCHILLER FIERCELY OPPOSED, NAMELY THE REINTRODUCTION IN
SOME YEARS -- AT LEAST IN EUROPE -- OF A NEW MONETARY
SYSTEM BASED ON A GOLD-FORCING EXCHANGE STANDARD SOME-
WHAT ON THE ORDER OF THE JUST-BURIED BRETTON WOODS
MODEL.

THE FRANKFURTER ALLGEMEINE ALSO REPORTED THAT A
NUMBER OF EUROPEAN CENTRAL BANKS, INCLUDING THE
BUNDESBANK, WILL BUY MUCH OF THE IMF GOLD AT THE FIRST
AUCTION.

HILLENBRAND

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